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VENPOWER LIMITED

Annual Report

JUNE 30, 1970

VENPOWER LIMITED

P.O. BOX 53, TORONTO-DOMINION CENTRE, TORONTO, CANADA

<i>Directors</i>	J. S. GAIRDNER	-	-	-	-	-	-	-	-	Oakville
	W. D. HALL	-	-	-	-	-	-	-	-	Caracas
	J. H. HAWKE	-	-	-	-	-	-	-	-	Toronto
	C. W. LEONARDI, C.A.	-	-	-	-	-	-	-	-	Oakville
	W. I. WOODSON	-	-	-	-	-	-	-	-	Caracas
	F. J. McDONALD	-	-	-	-	-	-	-	-	Toronto

<i>Officers</i>	J. H. HAWKE	-	-	-	-	-	-	-	-	<i>Chairman</i>
	C. W. LEONARDI, C.A.	-	-	-	-	-	-	-	-	<i>President</i>
	GEORGE L. PLODER, C.A.	-	-	-	-	-	-	-	-	<i>Treasurer</i>
	(MRS.) S. GRANGER	-	-	-	-	-	-	-	-	<i>Secretary</i>

Transfer Agent & Registrar CANADA PERMANENT TRUST COMPANY 1901 Yonge St., Toronto

Solicitors BLAKE, CASSELS & GRAYDON - - 25 King St. West, Toronto

Auditors ERNST & ERNST - - - - 7 King St. East, Toronto

Listing TORONTO STOCK EXCHANGE - - - - Bay St., Toronto

VENPOWER LIMITED

President's Report to Shareholders

Consolidated net earnings for the year ended June 30th, 1970, were \$356,124, equivalent to 12.3 cents per share, compared to \$213,309 or 7.4 cents per share last year. This improvement in earnings is mainly attributable to the cancellation of the long term debt under the reorganization of the financial structure of the company in January 1969, and to a foreign income tax credit resulting from the large capital expenditure for equipment made by the company in 1970. Despite substantial expenditures, our working capital increased by \$102,000 to stand at \$781,000 at the year end.

Revenue of \$1,243,277 was basically unchanged from last year, despite the loss, towards the end of the 1969 fiscal year, of a major industrial customer accounting for over \$100,000 in annual revenue. This loss was due to our inability, prior to the 1969 financial reorganization, to build facilities necessary to extend our distribution system to meet the customer's requirements. The lost revenue was made up primarily from increased sales, and the balance from other sources.

As explained in last year's Annual Report, the Venezuelan Government froze all electric rates in Venezuela in 1969, and this freeze is still in force. Shortly before this action, the company had settled with the officials of the City of Anaco the terms of a new 15 year agreement expanding our consumer distribution while maintaining our existing rates which were competitive with those charged in other municipalities in the area. However, after the Government freeze, the Municipal Council was unable to ratify the agreement.

The demand for lower power rates emanating from the municipal level since mid-1969 has continued unabated and, despite the federally ordered freezing of rates, a number of municipalities have taken steps to achieve reductions. The principal means used for that purpose is a procedure under which the municipality unilaterally decrees a scale of power rates and instructs power users to deposit their payments, based on that scale, into a designated account where they remain until the power company has agreed to adopt the decreed rates.

Our position has not been helped by the fact that our operations are in the central part of the State of Anzoategui and that the other municipalities in the area are all serviced by the federal government power commission whose rates were reduced and fixed by federal decree in March 1970. In order to avoid the impending application of the procedures stated in the above paragraph, the Company after lengthy negotiations, is in the process of entering into a five year agreement with the City of Anaco providing for a scale of rates lower than previously in effect but comparable to those charged by the federal power commission in surrounding municipalities. As a result, it is expected that revenue for the current and forthcoming fiscal periods will be materially reduced while costs continue to rise.

The long term outlook for the Company has led your management to enter into negotiations for the sale of the assets of our two operating subsidiaries to the Venezuelan Government power commission. The outcome of the negotiations cannot be predicted at this stage although the recent rate reduction is bound to be reflected in the sale price. Should these negotiations prove fruitful, management will seek the approval of the shareholders at a general meeting convened for that purpose before proceeding with the transaction.

It is particularly regrettable that circumstances beyond our control require the presentation to the shareholders of this report, since the 1970 results showed at long last a reasonable return for the investment made.

I would like to conclude this report by thanking, on behalf of the Board, the members of the staff for their diligence and efforts during the past year.

Submitted on behalf of the Board,

TORONTO
September 30, 1970

C. W. LEONARDI,
President

To the Shareholders,
VENPOWER LIMITED.

We have examined the consolidated financial statement of Venpower Limited and its subsidiaries for the year ended June 30, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination of the financial statement for the preceding year.

In our opinion, the accompanying balance sheet and statements of earnings and retained earnings and source and application of funds together with the notes which are a part thereof present fairly the consolidated financial position of Venpower Limited and its subsidiaries at June 30, 1970, the consolidated results of their operations and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,
Chartered Accountants

September 18, 1970.

V E N P O W E

(Incorporated under the laws of the State of New York)

AND ITS WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(With comparative amounts for 1969)

ASSETS

	1970	1969
CURRENT ASSETS:		
Cash - - - - -	\$ 100,896	\$ 111,619
Short-term deposits - - - - -	634,093	432,764
Trade and sundry accounts receivable - - - - -	152,512	762
Inventory of supplies—at cost - - - - -	137,012	279,848
Prepaid expenses - - - - -	3,368	58,122
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	1,027,881	883,115
FIXED ASSETS:		
At cost:		
Land - - - - -	56,121	56,121
Buildings - - - - -	590,091	590,091
Equipment and line facilities - - - - -	5,041,068	4,468,233
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	5,687,280	5,114,445
Less allowances for depreciation - - - - -	3,134,361	2,799,830
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	2,552,919	2,314,615
ORGANIZATION AND FINANCING EXPENSES - - - - -	149,454	152,434

APPROVED ON BEHALF OF THE BOARD:

J. S. GAIRDNER, Director

C. W. LEONARDI, Director

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\$3,730,254	\$3,350,164
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The accompanying notes are an integral part of the financial statement.

LIMITED

(Incorporated under the Laws of Canada)

SUBSIDIARY COMPANIES

SHEET AS AT JUNE 30, 1970

(as at June 30, 1969)

LIABILITIES

	1970	1969
CURRENT LIABILITIES:		
Bank loan - - - - -	\$ 129,250	\$ —
Accounts payable - - - - -	106,507	100,905
Foreign income taxes - - - - -	3,670	74,753
Current maturities of notes payable—Note B - - - - -	7,142	28,571
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	246,569	204,229
OTHER LIABILITIES:		
Notes payable—Note B - - - - -	—	7,142
Unrealized foreign exchange - - - - -	28,685	42,813
Employees severance indemnities - - - - -	57,885	54,989
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	86,570	104,944
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized:		
5,000,000 shares without par value		
Issued:		
2,885,511 shares - - - - -	2,848,070	2,848,070
Retained earnings (1969 after reorganization) - - - - -	549,045	192,921
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	3,397,115	3,040,991
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	\$3,730,254	\$3,350,164

VENPOWER LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED JUNE 30, 1970

(With comparative amounts for the years ended June 30, 1969 and 1968)

	1970	1969	1968
REVENUE:			
Sale of power - - - - -	\$1,168,231	\$1,199,308	\$1,094,177
Miscellaneous - - - - -	75,046	42,807	15,301
	<u>1,243,277</u>	<u>1,242,115</u>	<u>1,109,478</u>
EXPENSES:			
Operating and administrative - - - - -	523,735	497,317	452,899
Provision for depreciation - - - - -	334,530	335,707	332,019
Legal fees - - - - -	15,313	14,395	11,536
	<u>873,578</u>	<u>847,419</u>	<u>796,454</u>
OPERATING PROFIT - - - - -	369,699	394,696	313,024
Interest on long-term debt - - - - -	—	86,991	162,000
EARNINGS BEFORE TAXES - - - - -	369,699	307,705	151,024
Foreign income taxes—Note E - - - - -	13,575	94,396	30,659
NET EARNINGS FOR THE YEAR - - - - -	<u>\$ 356,124</u>	<u>\$ 213,309</u>	<u>\$ 120,365</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

YEAR ENDED JUNE 30, 1970

(With comparative amounts for the years ended June 30, 1969 and 1968)

	1970	1969	1968
Retained earnings (deficit) at July 1, - - - - -	\$192,921	(\$2,563,135)	(\$2,643,623)
Reorganization - - - - -	—	2,602,052	—
	<u>192,921</u>	<u>38,917</u>	<u>(2,643,623)</u>
Net earnings for the year - - - - -	356,124	213,309	120,365
	<u>549,045</u>	<u>252,226</u>	<u>(2,523,258)</u>
Loss on sale of fixed assets - - - - -	—	39,589	39,877
Reduction of prior years earnings - - - - -	—	19,716	—
RETAINED EARNINGS (DEFICIT) AT JUNE 30 - - - - -	<u>\$549,045</u>	<u>\$ 192,921</u>	<u>(\$2,563,135)</u>

The accompanying notes are an integral part of the financial statement.

VENPOWER LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED JUNE 30, 1970

(With comparative amounts for 1969)

	1970	1969
SOURCE OF FUNDS:		
From operations:		
Net earnings for the year - - - - -	\$356,124	\$213,309
Provision for depreciation - - - - -	334,530	335,707
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TOTAL FUNDS FROM OPERATIONS - - - - -	690,654	549,016
Decrease in deferred organization and financing expenses -	2,980	—
Issue of shares - - - - -	—	7,500
Cancellation of current maturities, Series "A" debentures -	—	100,000
Increase in employees severance indemnities - - - - -	2,896	619
Fixed assets sold (net) - - - - -	—	14,594
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	696,530	671,729
APPLICATION OF FUNDS:		
Decrease in unrealized foreign exchange - - - - -	14,128	1,202
Loss on sale of fixed assets - - - - -	—	39,589
Reduction of prior years earnings - - - - -	—	19,716
Organization and financing expenses deferred (net) - - -	—	8,120
Reduction of long-term notes payable - - - - -	7,142	28,572
Additions to fixed assets - - - - -	572,834	—
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	594,104	97,199
	<hr/>	<hr/>
Increase in working capital for the year - - - - -	102,426	574,530
WORKING CAPITAL, JULY 1 - - - - -	678,886	104,356
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WORKING CAPITAL, JUNE 30 - - - - -	\$781,312	\$678,886
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VENPOWER LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

JUNE 30, 1970

NOTE A

Excepting certain financial and administrative functions, the business of the Company and its wholly-owned subsidiaries, C. A. Fuerza Electrica and C. A. Electricidad de Cantaura, are carried on in the Republic of Venezuela.

Conversion to Canadian dollars of all assets and liabilities and revenue and expenditures originating in bolivars has been made at the official rate of exchange (which approximated quoted rates) except for fixed assets and related allowances for depreciation which are stated at the accumulated amounts obtained by the application of rates prevailing at the time of acquisition or charge.

NOTE B

Non interest-bearing notes were issued by C. A. Fuerza Electrica payable in equal monthly instalments for the period from February, 1967, to September, 1970 inclusive. These notes arise from the acquisition of the distribution and generation facilities located in the town of Cantaura.

NOTE C

Remuneration received by directors as directors, officers or employees amounted to \$15,600. during the year.

NOTE D

The earnings per share for the current fiscal year were 12.3¢. The previous year's earnings per share were 7.4¢ after giving effect to the capital and debt reorganization on January 15, 1969.

NOTE E

Foreign income taxes have been reduced by the application of tax credits arising from the purchase of plant and equipment, 1970—\$84,500., 1969—nil, 1968—\$14,700.

